Direct Loans Annual Conference

Session 17

Default Management and Prevention

Training Objectives

- Cohort Default Rate Calculation
- Draft Cohort Default Rate Process
- Official Cohort Default Rate Process

Cohort Default Rate (CDR)

A cohort default rate is the percentage of a school's student borrowers who enter **repayment** on certain Federal Family Education Loan (FFEL) Program and/or William D. Ford Direct Loan (Direct Loan) Program loans during a given fiscal year and **default** or meet other certain conditions during the fiscal year that the loan entered repayment or the next fiscal year.

Fiscal Year (FY)

- FY 1997
  - October 1, 1996 - September 30, 1997
- FY 1998
  - October 1, 1997 - September 30, 1998

Cohort Period Time Frames Chart

Cohort Period	Loans Included in the Cohort Default Rate Calculation	Period of Time
FY 1995	Students who entered repayment on their loans in FY 1995 and defaulted in FY 1995 or FY 1996	10-1-94 to 9-30-96
	Students who entered repayment on their loans in FY 1995	10-1-94 to 9-30-95
FY 1996	Students who entered repayment on their loans in FY 1996 and defaulted in FY 1996 or FY 1997	10-1-95 to 9-30-97
	Students who entered repayment on their loans in FY 1996	10-1-95 to 9-30-96
FY 1997	Students who entered repayment on their loans in FY 1997 and defaulted in FY 1997 or FY 1998	10-1-96 to 9-30-98
	Students who entered repayment on their loans in FY 1997	10-1-96 to 9-30-97

Determine the Denominator of the CDR

the number of **students** who entered repayment in FY 1997 and who defaulted or met ***other specified conditions*** before the end of FY 1998 (Numerator)

the number of **students** who entered repayment in FY 1997 (Denominator)

- For Stafford Loans (FFEL and Direct Loan)
  - Determine DER
    - LDA/LTH plus six months plus one day
  - Determine FY in which DER falls

Determine the Numerator of the CDR

the number of **students** who entered repayment in FY 1997 and who defaulted or met ***other specified conditions*** before the end of FY 1998 (Numerator)

the number of **students** who entered repayment in FY 1997 (Denominator)

- Direct Loan Program Loans
  - Loan must be in the denominator (D)
  - Obtain from DLSC 271 day of delinquency **OR** 271 day of certain income contingent repayment plans
  - Determine if 271 day falls within cohort period

Consolidation Loans

- Actual consolidation loan not counted in CDR
- Default of consolidation loan may effect underlying loans in CDR if the default of the consolidation loan occurs within the cohort period the underlying loans entered into repayment

Consolidation Example

- DL Stafford loans entered repayment in 1/1997 (FY 1997 Cohort Period)
- Consolidation loan obtained in 8/1997
- Consolidation loan defaulted in 9/1998 (FY 1997 Cohort Period)
- DL Stafford loans considered in default (FY 1997 N and D)

Loan Record Detail Report (LRDR)

- A loan record detail report (LRDR) is a report sent to schools which contains information on FFEL Program and Direct Loan Program **loans that were used to calculate a school's cohort default rate.**
- Schools receive LRDR twice a year

  - Draft cohort default rate

  - Official cohort default rate

Draft CDRs

- Draft CDR
  - released in spring (March 29, 1999)
  - not public
  - no sanctions or consequences
  - **all** schools may challenge data reported in LRDR
  - schools may submit participation rate index (PRI) challenge

Why Is It Important to Review Draft Data

- Ensure data is correct
- **Only opportunity** to challenge certain data
- Draft data is **used to calculate official** cohort default rates
- **Preserves right to appeal** official cohort default rate

Why Submit a PRI Challenge

- Relatively **low number of students** participate in the FFEL/DL Program
- Percentage of students participating in the FFEL/DL Program multiplied by the school's CDR results in a **participation rate index that is 0.0375 or lower**
- Preserve right to participate in FFEL/DL Programs despite CDRs that are 25.0% or greater for three years

Official CDRs

Official CDRs

– released in fall (September 1999)

– public

– sanctions and consequences

– only certain schools may appeal

Sanctions

- Initial Loss of Eligibility
  - – FFEL Program
  - – Direct Loan Program
  - – Federal Pell Grant Program
- Extended Loss of Eligibility
  - – FFEL Program
  - – Direct Loan Program
  - – Federal Pell Grant Program (certain schools only)
- Limitation, Suspension &/or Termination (LS&T)
  - – All or part of Title IV Programs

Cause of Sanctions

- Initial Loss
  - – 3 consecutive CDRs are 25.0% or greater
- Example
  - – FY 1997 CDR = 27.3%
  - – FY 1996 CDR = 29.6%
  - – FY 1995 CDR = 25.0%

Cause of Sanctions

- Extended Loss
  - – previous loss and subsequent CDR is 25.0% or greater

- Example
  - – FY 1997 CDR = 28.7%
  - – FY 1996 CDR = 29.2% (lost eligibility)
  - – FY 1995 CDR = 32.7%
  - – FY 1994 CDR = 25.6%

Cause of Sanctions

- LS&T
  - – single year CDR that is 40.1% or greater
- Example
  - – FY 1997 CDR = 42.3%
- **Not** Subject to LS&T
  - – FY 1997 CDR = 40.0%

Effective Dates of Loss

- If School Does Not Appeal
  - Loss becomes effective within **30 calendar days** of receiving official cohort default rate notification letter notifying school of loss
- If School Appeals Loss and Appeal is Unsuccessful
  - Loss becomes effective **immediately** upon receipt of the unsuccessful appeal determination letter
- If School Appeals Loss and Appeal is Successful
  - Loss of eligibility is withdrawn

Period of Loss

- Initial/Extended Loss
  - remainder of fiscal year in which school received notice of loss

    PLUS
  - two additional fiscal years
- LS&T
  - undetermined
  - dependent upon the outcome of Subpart G Hearing

Appealing Sanctions

- Request for Adjustment
- Erroneous Data Appeal
- Improper Loan Servicing & Collection Appeal
- Exceptional Mitigating Circumstances Appeals
- Subpart G Hearing

Request for Adjustment (RA)

- A request for adjustment assures that a school's cohort default rate calculation **reflects changes** that were correctly agreed to **during the draft data review process**.
- All schools are eligible

Erroneous Data (ER)

- An erroneous data appeal is a challenge submitted to the Department alleging that a schools official cohort default rate is inaccurate because of incorrect disputed or new data.
- Only schools subject to sanctions may appeal

Loan Servicing (LS)

- An improper loan servicing appeal is a challenge submitted to the Department alleging that a school's official cohort default rate includes defaulted loans on which the borrower did not make a payment and the lender/servicer failed to perform loan collection activities, specified in 34 CFR § 668.17(h)
- Schools with CDR equal to or greater than 20% may appeal

Exceptional Mitigating Circumstances (EMC)

- An exceptional mitigating circumstances appeal is a challenge submitted to the Department alleging that a school has **extenuating circumstances** that caused the school's cohort default rate to exceed the statutory thresholds.
- Only schools subject to sanctions may appeal.

Changes to HEA

- Loss of Federal Pell Grant Program Eligibility
- Changes to EMC Appeals
- Repayment of Fees Due to Unsuccessful Appeals
- End of HBCU/TCCC Exemption
- Benefit for Schools with Three Years of Rates under 10.0% or one year under 5.0%

Direct Loans

Annual Conference

Default Management: Tommy Sims, DeVry

A pro-active approach to reducing my Institute's 1997 Cohort Default Rate

Introduction:

Over the past years the overall Cohort Default Rate for Federal Student Loans has dropped to single digit rates. However, many Institutions of Higher Learning are still struggling to reduce their default rates. Many strategies have been proposed by institutes, some that worked and some that have not.

Before an institution applies any default management strategies it must realize that there will always be borrowers that default. You cannot eliminate defaulters but you can manage which cohort year in which they affect your Institution.

There are three areas that an Institution may want to concentrate on in an effort to reduce their Cohort Default Rate

- Student Finance Department
- Academics/Admission Department
- Erroneous Data Appeal

Student Finance Department

- Enhance Entrance and Exit Counseling
- Incorporate personal finance concepts
- Teach parents as well as students
- Hire full time Default Management Counselor
- Work 30 day, 60 day, 90 day and higher delinquency report
- Incorporate in school deferments as a part of paperwork completion for all Resume Students

Student Finance Department

- Provide Debt Management training for Student Finance Staff
- Limit loans to direct cost unless student appeals for additional aid
- Establish Default Aversion/Retention Committee
- Coordinate effort with the Retention Committee 1 -3 term students

Student Finance Department

- Monitor default rates and set reasonable goals
- Withhold academic transcript on delinquent or defaulted student borrowers
- Contact each dropout during their grace to remind them about the first loan payment

Academics/Admissions Department:

- Evaluate admission policies and test score requirements
- Create department to assist 1 - 3 term students that may be having financial, academic, or personal problems
- Incorporate money management concepts into the orientation classes for new students

Academics/Admissions Department

- Change compensation for Admission personnel to include graduation compensation
- Raise the level of integrity for students with SAP (Satisfactory Academic Progress) problems

Draft Erroneous Data Appeal:

I strongly encourage all schools to submit this Appeal upon receiving their Draft Cohort Default Rate. If an Institute does not appeal their Draft Rate they lose their ability to challenge the Final Cohort Default Rate. The Institution has 30 days from receipt of the draft back up data to submit the challenge to the Guaranty Agency or Direct Loan Servicer.

Draft Erroneous Data Appeal:

The objective of this appeal is to determine if a borrower was correctly included in your current cohort year or should the borrower be included in a past cohort year. It is not always beneficial to challenge borrowers and put them into a future cohort year unless you know an estimate rate for that year.

Summary:

There is no guaranteed Default Management Plan or Strategy but to have no plan can prove to be fatal to an Institute's survival. If a school is not sure about how to set up such a plan they might adopt "Appendix D" as a guide. With the diverse population that many institutions are serving, it is imperative that this rate be constantly monitored for improvements.